Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	

Reply Comments of the ICORE Companies

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The consulting firm of ICORE, Inc. (ICORE), on behalf of many small, rural incumbent local exchange carriers (ILECs)[1], offers these reply comments in the above-captioned proceeding. ICORE provides a variety of consulting, regulatory and network related services to a number of small ILECs serving rural and suburban America.

1 ILECs participating in this filing include: Bascom Mutual Telephone Company (Bascom, OH), Citizens Telephone Company of Kecksburg (Mammoth, PA), Doylestown Telephone Company (Doylestown, OH), Dunbarton Telephone Company (Dunbarton, NH), Fort Jennings Telephone Company (Fort Jennings, OH), Highland Telephone Cooperative (Monterey, VA), Home Telephone Company (Jacob, IL), Hot Springs Telephone Company (Hot Springs, MT), Ironton Telephone Company (Coplay, PA), Kilduff Telephone Company (Kilduff, IA), Lexcom Telephone Company (Lexington, NC), Lynnville Telephone Company (Lynnville, IA), Middle Point Home Telephone Company (Middle Point, OH), Northeast Iowa Telephone Company (Monona, IA), Nova Telephone Company (Nova, OH), Pierce Telephone Company (Pierce, NE), Reasnor Telephone Company (Reasnor, IA), Searsboro Telephone Company (Searsboro, IA), Sherwood Mutual Telephone Company (Sherwood, OH), Sully Telephone Association (Sully, IA), Summit Telephone Company (Fairbanks, AK), Sycamore Telephone Company (Sycamore, OH), Venus Telephone Company (Venus, PA), and Yukon Waltz Telephone Company (Yukon, PA).

I. INTRODUCTION

ICORE believes that all small, rural ILECs should continue to have access to the currently available interstate traffic sensitive tariff options. Significant changes to these rules are unnecessary and would introduce new regulatory requirements at a time when this Commission has repeatedly granted regulatory relief through forbearance to the mega-BOCs (AT&T, Embarq, Qwest, and Verizon)[2].

II. DRASTIC CHANGES TO TARIFF RULES ARE UNNECESSARY

The vast majority of commenters seem to agree that the Commission need not implement drastic changes to the rules governing the tariffing of traffic-sensitive switched access services by local exchange carriers ("LECs"). The current federal rules provide LECs with several options when it comes to establishing interstate traffic sensitive rates and tariffs. Price Cap regulation limits the prices a carrier can bill for

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[2] *See, e.g.*, *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, CC Docket No. 02-33, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853 (2005) (*Wireline Broadband Internet Access Services Order*), *aff'd, Time Warner Telecom v. FCC*, No. 05-4769 (and consolidated cases) (3rd Cir. Oct. 16, 2007); *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Its Broadband Services; Petition of BellSouth Corporation for Forbearance Under Section 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules with Respect to Its Broadband Services*, WC Docket No. 06-125, Memorandum Opinion and Order, FCC 07-180 (rel. Oct. 12, 2007), *pets. for review pending*, Nos. 07-1426, 07-1427, 07-1429, 07-1430, 07-1431, 07-1432 (D.C. Cir. filed Oct. 22, 2007); *Petition of the Embarq Local Operating Companies for Forbearance Under 47 U.S.C. § 160(c) from Application of Computer Inquiry and Certain Title II Common-Carriage Requirements; Petition of the Frontier and Citizens ILECs for Forbearance Under Section 47 U.S.C. § 160(c) from Title II and Computer Inquiry Rules With Respect to Their Broadband Services,* WC Docket No. 06-147, Memorandum Opinion and Order, FCC 07-184 (rel. Oct. 24, 2007) (*Embarq and Frontier Title II and Computer Inquiry Forbearance Order*), *pet. for review pending*, No. 07-1452 (D.C. Cir. filed Nov. 5, 2007). Verizon also obtained certain relief from *Computer Inquiry* requirements when its petition for forbearance regarding enterprise broadband services was deemed granted by operation of law. *See Verizon Telephone Companies' Petition for Forbearance from Title II and Computer Inquiry Rules with Respect to their Broadband Services Is Granted by Operation of Law,* WC Docket No. 04-440, News Release (rel. Mar. 20, 2006) (announcing that Verizon's petition for forbearance from certain Title II and *Computer Inquiry* requirements for enterprise broadband services was granted by operation of law), *pets. for review pending, Sprint Nextel et al. v. FCC,* No. 06-1111 (and consolidated cases) (D.C. Cir. filed Mar. 29, 2006).

access services without any restrictions on the rate of return that carrier might earn. This regulatory approach, used primarily by larger LECs, focuses on prices rather than earnings to maintain just and reasonable interstate access rates[3]. Price cap carriers are permitted to earn returns significantly higher, or potentially lower, than those allowed to rate of return incumbent LECs. Even if a price cap LEC earns a significantly high rate of return, it is not subject to complaints for excess earnings. As examples, AT&T, Qwest, and Verizon all operate under Price Cap regulation. It appears that this tariff option is not under review in this docket. The ICORE companies believe that the Commission should review the price cap results of these companies as part of any review of access stimulation.

Smaller rural LECs can elect to concur in the tariff filed annually by the National Exchange Carrier Association ("NECA"). The parties to this proceeding seem to conclude that carriers that participate in the NECA tariff should not be impacted by this rulemaking.[4] To the extent the Commission seeks to thwart stimulation of network usage, it appears that NECA's average schedule settlements already provide a sufficient disincentive. As outlined by NECA[5], once a LEC has more than 330 access minutes per line per month, their settlements drop dramatically. As illustrated in Table One, a company concurring in the NECA Traffic Sensitive Tariff would experience only a very slight increase in settlements when access minutes increase significantly. In this example, a LEC would increase revenues by only $31,620 when minutes increased by 59,340,000. When evaluating this on a per minute basis, the LEC receives just in excess

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[3] 47 C.F.R. §§61.41-49.

[4] See Comments of Iowa Telecommunications Association ("ITA") @ Page 3, Comments of National Telecommunications Cooperative Association @ Page 5

[5] See Comments of the National Exchange Carrier Association ("NECA") @ Pages 6-7.

of 5/100ths of a penny for these "new" minutes. Under NECA's economics – ***NECAnomics***[6] – companies receive lower revenue per minute when minutes increase. As other parties have noted, this end result runs contrary to the finding of this Commission that a LEC incurs the same cost to terminate each minute of traffic.[7] ICORE does not support the notion that this incremental rate would be somehow compensatory for the average schedule LEC, but rather offers this information as proof that under NECAnomics, LECs are unlikely to engage in any access stimulation activities.

Table One Average Schedules - Increased Traffic Volumes				
Access Lines		2,000		2,000
Minutes Per Line		330		30,000
Total Minutes		660,000		60,000,000
Central Office				
Settlement/Min	$	0.043	$	0.001
C.O. Settlement	$	28,380	$	60,000
Incremental Revenue			$	31,620
Incremental Minutes				59,340,000
Incremental Revenue per Minute			$	0.000533

The focus of this investigation seems to be the Commission's tariff rules included in 47 C.F.R. §61.39. With almost twenty years of history[8] to rely on, the §61.39 process has stood the test of time and has proven to yield just and reasonable rates. Even if this Commission were to determine that access stimulation and sharing of revenues were

6 While the telecommunications industry already has enough acronyms and terminology, ICORE describes ***NECAnomics*** as the statistical and mathematical gymnastics that NECA performs to develop the Average Schedule formulas each year. NECAnomics relies on regression analysis, sample weights, stratification of the population, and good old fashioned cost allocation make it nearly impossible to challenge their schedules.

7 Comments of Chase Com, Fonepods, FreeConferenceCall.com, and HFT Corp @ Page 13 ("*Chase Com*").

8 Comments of the Western Telecommunications Alliance ("WTA") @ Page 15

illegal – which it has not done[9] – there are still many valid reasons why a carrier might elect to use §61.39 to file its interstate access tariffs. For instance, NECA's average schedule changes implemented on July 1, 2006 and July 1, 2007 included such dramatic reductions in revenues that each filing was implemented with a transition mechanism. Through the mechanics of §61.39, LECs could essentially postpone these dramatic reductions for a two year period – the two years they would be out of the NECA pool.

The additional regulation proposed by various parties in this proceeding would not be good public policy. One underlying theme of the comments filed to date was that as a general rule §61.39 works, and only a very small segment of companies have participated in what the IXCs call traffic stimulation. With this backdrop, many parties argue against drastic revisions to §61.39.[10] Many oppose quarterly reporting of access minutes[11], certifications that carriers are not stimulating traffic[12], triggers designed to require automatic re-filing of access rates[13], and prohibitions on entry into price cap regulatory status[14] as either contrary to the Commission's deregulatory focus or administratively burdensome. More modest changes like requiring a carrier to stay out of the NECA pool for more than a single two-year period would likely solve the concerns about traffic stimulation. By making this minor change, the Commission could ensure that the LECs who experience significant increases in access minutes during the first

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9 See Comments of Futurephone.com @ Pages 15-16.

10 See Comments of CenturyTel @ Page 1 – "…the FCC should not throw the baby out with the bathwater", .USTelecom @ Page 2 – "Both actions would be akin to the proverbial discarding the baby with the bathwater.", and The Rural Alliance @ Page 3 – "If it isn't broke, don't fix it."

11 See Comments of ITA @ Pages 4-5, Public Utility Commission of Ohio @ Page 9, and WTA @ Page 15.

12 See Comments of ITA @ Page 4, Rural Iowa Independent Telephone Association ("RIITA") @ Page 6, and USTelecom @ Page 7.

13 See Comments of CenturyTel @ Page 6, ITTA @ Page 12, OPASTCO @ Page 9, and RIITA @ Page 15.

14 See Comments of AT&T @ page 38.

period would have to dramatically lower their rate in the second period. More importantly, this is an administratively simple change to implement. Many of the other methods suggested in this proceeding would require more regulatory filings, potentially multiple mid-course tariff filings, and would no doubt lead to disputes over how to measure "normalized" traffic volumes for trigger thresholds.[15]

III. THE COMMISSION MUST IGNORE IXC RHETORIC.

AT&T argues that until the Commission took steps to stop them, dozens of small ILECs exiting the NECA pools in order to find traffic pumping riches.[16] AT&T claims that these LECs, faced with having to "disclose their plans for vastly increasing the traffic"[17] then either returned to the NECA pool or placed language in their tariffs to limit traffic growth. The end result of the FCC's Order suspending the LEC tariffs[18] is correct, but AT&T oversimplifies the factors the LECs had to consider. ICORE agrees with CenturyTel's assessment of the situation. LECs were faced with a Hobson's choice of participating in a full blown investigation or having to implement tariff language promising to adjust rates if demand increased by a specified percentage.[19]

The ICORE companies believe that LECs should continue to have the flexibility to seek mutually beneficial business relationships in order to survive in the increasingly competitive telecommunications sector. That being said, the entire topic of access stimulation is blown well out of proportion by the IXCs participating in this proceeding.

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[15] For examples of the problems associated with measuring and normalizing traffic thresholds, See Comments of ITA @ Pages 506 and RIITA @ Page 5.

[16] See Comments of AT&T @ Page 2.

[17] Id.

[18] See July 1, 2007 Annual Access Charge Tariff Filings, WCB/Pricing No. 07-10, Order, DA 07-2862 (rel. June 28, 2007).

[19] See Comments of CenturyTel @ Pages 2-3.

Of particular irony is the claim by AT&T that "Initially, traffic pumping was confined to a relative handful of unscrupulous small ILEC…"[20] In their footnote on this point, they cite three cases where they challenged practices of three telephone companies.[21] The Commission's rulings in these cases found that locating high volume customers in rural communities to promote and expand the use of rural telephone plant is a reasonable and lawful means of increasing the production of terminating access service. So while AT&T refers to these LECs as "unscrupulous", the FCC calls their practices reasonable and lawful. Payments to other high volume users of the telephone networks were previously found to be acceptable by the FCC, including private payphone companies for 0+ operator handled calls and payments to traffic aggregators (like hotels, airports, etc.).[22] In addition, AT&T itself participates in traffic stimulation in its provision of toll free calling in conjunction with American Idol and other reality television shows, and payments of a portion of monthly fees from AT&T Wireless's iPhone data plan customers to Apple.[23]

Next, the IXCs seek to persuade the regulator that any party involved in traffic stimulation is committing fraud, using pornographic content, or offering kickbacks[24]. AT&T states that in November 2007, it transported and terminated over 22.6 million minutes to 99 conference lines that were used for free on-demand conferencing by small businesses and individuals.[25] What AT&T does not tell us is how much they were able to bill in long distance charges for the toll component of this service. They also fail to

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[20] See Comments of AT&T @ Page 2.
[21] Id. *Cases of note were against Beehive Tel Co., Frontier Communications of Mt. Pulaski, Inc., and Jefferson Tel Co.*
[22] See Comments of Hypercube and Mcleod USA @ Pages 5.
[23] Id. @ Pages 5-6.
[24] See Comments of AT&T @ Page 6.
[25] Id @ Page 7.

mention whether they even paid the terminating access charge bills rendered on these 22.6 million minutes. If these minutes were generated through "all you can eat" calling plans, the IXCs might argue they obtain no additional revenues for these services. The IXCs implemented these plans and they alone should be accountable for ensuring the rates charged cover their costs. The Commission should not be persuaded by this "save us from ourselves" business approach.

The payment of a marketing fee is similarly attacked in initial comments. A comparison of conferencing service sold by an RBOC-IXC to those utilized by the rural LECs and their conferencing partners illustrates that this attack is unwarranted. Having a national footprint, the RBOC-IXC can market their services anywhere/anytime. In one stop, their customers can purchase conference calling services from them, can obtain toll free dialing into the conferencing center, or can use their services for 1+ dialing. Even in cases where the caller is using another carrier, the RBOC portion of the RBOC-IXC will bill terminating access charges for the conference calls. The incumbent rural ILEC can provide terminating access service, can invest in conferencing equipment, but does not have the national footprint or name-recognition to effectively market its services. It can accomplish this by partnering with a conferencing company that provides the national reach.

AT&T argues that LECs are manipulating interconnection points to increase the per-minute access charges to which they are entitled. In one case, they claim a LEC added 50 miles of transport by designating an access tandem as the point where it accepts traffic.[26] AT&T acknowledges that this is the very point where AT&T interconnects with the transport provider. Apparently, AT&T believes that the LEC should not be paid to

[26] Id @ Page 37.

haul the call to its local customer. This call traverses facilities owned by the rural LEC and as such AT&T must pay for the transport from the tandem to the end office. This call does not magically get from the tandem to the end office – it routes over the same network all IXCs use and all IXCs must pay the lawfully tariffed rates for this service.

IV. "SELF-HELP" IS NOT A PERMISSABLE REMEDY

With an undeniable advantage in bargaining power, several interexchange carriers have simply failed to pay RLECs for services provided under "deemed lawful" tariffs. As one party noted, "…the IXCs want the Commission to restrict efficient use of the networks of small, rural incumbent and competitive local exchange carriers, while allowing the IXCs to continue to unlawfully bully the RLECs by withholding payments due."[27] This should be nothing new to anyone involved in the telecommunications industry, as self-help remains the bastion of RBOCs and IXCs alike.

Some of the most sweeping reforms that negatively impacted small, rural competitive LECs and incumbent LECs were implemented as a result of BOC/IXC self help. This Commission has stated that "***We are concerned that the IXCs appear routinely to be flouting their obligations under the tariff system***".[28] This was not a quote from this proceeding, but rather it dates back to the *CLEC Access Charge Order* in 2001. In that proceeding, it was Sprint unilaterally recalculating the access charges to what it believed constituted a just and reasonable rate[29]. At the same time, AT&T simply

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27 See Comments of Global Conference Partners @ Page 4, ITA @ Page 8, and Futurephone@ Page 22.

28 In the Matter of Access Charge Reform, Reform of Access Charges Imposed by Competitive Local Exchange Carriers, CC Docket No. 96-262, Released April 27, 2001 ("*CLEC Access Charge Order*"), ¶23.

29 Id.

declined to pay CLEC access invoices if it believed the rates were unreasonable.[30] In the *CLEC Access Charge Order*, the Commission ordered reductions in the access rates billed by numerous CLECs.[31]

When the FCC moved forward with its *ISP Remand Order*,[32] the large RBOCs had established a similar pattern of self-help. At the time the Order was adopted, it was reported that CLECs were owed $1.98 billion in reciprocal compensation payments, of which about 90% was for ISP-bound traffic[33]. Despite the FCC's concern on self-help, both the *ISP Remand Order* and the *CLEC Access Charge Order* ended up being resolved favorably for the RBOC-IXCs.

It is interesting to note that the IXCs cannot challenge the rates charged by their RBOC brothers because the LEC operations of the mega-RBOCs are shielded from complaints as a result of their status as price cap carriers. AT&T goes so far as to ask the Commission to "issue a declaratory ruling making clear that no ILEC is permitted to opt into the Commission's current price cap rules absent express permission from the Commission."[34] To somehow legitimize this request, AT&T argues that the current price cap regime could be tempting to traffic-pumping LECs because this regime does not regulate rates.[35] This begs the question, which portion of AT&T's operations seeks to ensure that LECs cannot move to price cap regulation? Is it AT&T the IXC, hoping to avoid payment of lawfully tariffed switched access rates? Could it be AT&T the RBOC

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30 Id.
31 Id. @ ¶ 1.
32 In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 Intercarrier Compensation for ISP-Bound Traffic ("*ISP Remand Order*")
33 Letter from Richard J. Metzger, Focal, to Deena Shetler, Legal Advisor to Commissioner Gloria Tristani, FCC (Jan. 11, 2001)
34 See AT&T Comments @ page 38.
35 Id @ page 39.

looking to ensure that the millions of minutes delivered to rural LEC conference calling centers are re-directed to the RBOCs to boost their unfettered rate of return.

That RBOC rate of return for interstate services is shown below on Table Two[36].

Table Two

2002	Operating Revenues	Operating Expenses	Operating Income	Average Net Investment	Rate of Return
BellSouth Communications, Inc.	$2,755,169,000	$1,645,263,000	$1,109,906,000	$5,736,983,000	19.35%
Qwest Communications	$2,956,742,000	$2,218,031,000	$738,711,000	$3,679,652,000	20.08%
SBC Companies (FCC Generated)	$5,629,735,000	$4,420,083,000	$1,209,652,000	$6,611,433,000	18.30%
Verizon Companies (FCC Generated)	$8,080,314,000	$5,867,696,000	$2,212,612,000	$14,463,312,000	15.30%
Sprint	$1,102,070,000	$745,332,000	$356,737,000	$1,222,358,000	29.18%
Total	20,524,030,000	14,896,405,000	5,627,618,000	31,713,738,000	17.75%

2003	Operating Revenues	Operating Expenses	Operating Income	Average Net Investment	Rate of Return
BellSouth Communications, Inc.	$2,768,494,000	$1,604,376,000	$1,164,118,000	$5,307,515,000	21.93%
Qwest Communications	$2,378,272,000	$1,783,063,000	$595,209,000	$2,584,100,000	23.03%
SBC Companies (FCC Generated)	$5,833,998,000	$4,668,141,000	$1,165,857,000	$5,724,745,000	20.37%
Verizon Companies (FCC Generated)	$7,266,212,000	$5,639,565,000	$1,626,644,000	$13,161,051,000	12.36%
Sprint	$1,185,156,000	$737,102,000	$448,054,000	$1,270,313,000	35.27%
Total	19,432,132,000	14,432,247,000	4,999,882,000	28,047,724,000	17.83%

The table above illustrates that price cap regulation has been very good to the RBOCs. Since these companies and their affiliated IXCs are among the largest sellers of a service (access) and buyers of the same service, they would have little to no incentive to reduce these prices to achieve a rate of return comparable to that which they ask the rural LECs to use. Assuming an 11.25% return on average net investment, the RBOC access rates generated $2.06 billion in overearnings as compared to what they would have received as a rate of return carrier for 2002. In 2003 this figure was in excess of $1.84 billion.

In case one thinks these returns are an anomaly, Table 4.1 of the Wireline Competition Bureau's Trends in Telephone Service Report dated February 2007 is

[36] See FCC's Wireline Competition Bureau's Interstate Rate of Return Summary released July, 2004 and available on-line at http://www.fcc.gov/wcb/iatd/lec.html

attached as Exhibit One. This shows the final interstate rate of return earned by Price Cap companies for the period 1998 through 2004, and an initial earnings report for 2005. For BellSouth, the 19.35% earnings level shown for 2002 is actually the lowest it has earned in the eight years from 1998 through 2005. As shown on Exhibit One, the rates of return for the other RBOCs do not differ drastically from the figures shown above.

Any provider operating under an alternative regulation plan – a plan in which the rate charged is regulated, but earnings are not, takes on the risk of under-earning and the benefits of over-earning. Carriers operating with tariffs filed in accordance with 47 C.F.R. §61.39 take on the same risk / reward scenario. When the Commission sought options for Alternative Regulation Plans for rate of return carriers, one of the proposals was to expand 47 C.F.R. §61.39 to enable it to be used by all carriers – not just those companies that serve 50,000 or fewer lines ("*the ALLTEL Plan*")[37]. Given their current heartburn with carriers using §61.39 for their tariffs, AT&T must have opposed expanding eligibility for §61.39, right? Not so, as the comments below indicate:

> "The ALLTEL plan is superior to conventional rate-of-return regulation under section 61.38 because it would reflect productivity gains from the prior tariff period without the inherent uncertainties associated with projecting cost and demand."
>
> "At least, under ALLTEL's proposal, the deleterious effects of Section 204(a)(3) are mitigated by the stability of rates over a two-year period, and the inherent uncertainties of setting rates based on projections of cost and demand are replaced by a system that ensures that if a carrier's units costs go down, the new rates in the subsequent tariff period will reflect these efficiencies."
>
> ***(AT&T Comments in Docket No. 00-256, filed April 23, 2004)***

[37] See the proposal developed collectively by ALLTEL Communications, Madison River Communications, and TDS Telecom, submitted in CC Docket No. 00-256, ex-parte filed January 31, 2003. ("*the ALLTEL Plan*")

It was only in reply comments where AT&T tempered its enthusiasm by suggesting that two additional criteria should be added to the ALLTEL plan. First, LECs electing §61.39 regulation would be required to submit detailed cost information at the time of their election. They also sought the requirement for carriers to file rate of return monitoring reports so that the Commission can assess the operation of the ALLTEL proposal. One can only hope it would have operated as well as the RBOC-generated CALLS plan.

V. THE COMMISSION SHOULD FOCUS ON INTERCARRIER COMPENSATION REFORM FOR ALL CARRIERS

Many parties[38] take the opportunity to remind the Commission that other pending intercarrier compensation issues need resolution. With Commission resources directed to the access stimulation investigation, other issues continue to linger in regulatory limbo. Among the more important of these issues are phantom traffic, the appropriate regulatory treatment of IP services, and compensation for VoIP traffic traversing and terminating on the public switched telephone network.

[38] See the Comments of Cavalier @ Page 2, Chase.com @ Page 5, Embarq @ Page 15, Independent Telephone & Telecommunications Alliance @ Page 15, Global Conference Partners @ Page 20, The Rural Alliance @ Page 4, WTA @ Pages 20-23.

VI. CONCLUSION

The ICORE companies oppose major revisions to the interstate traffic sensitive tariffing rules. The Commission should consider only minor changes and use its existing authority to resolve tariff disputes. Most importantly, the Commission should move quickly to stop the bleeding of LEC traffic which is occurring due to phantom traffic, VoIP usage, and the general unwillingness of carriers to pay for the use of the PSTN.

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Reply Comments of the ICORE Companies

Exhibit One

Table 4.1

Interstate Rate of Return Summary *
Years 1998 through 2005
Price-Cap Companies Reporting FCC Form 492A
(Final Reports for 1998 Through 2004 and Initial Report for 2005) [1]

	Reporting Entity	2005	2004	2003	2002	2001	2000	1999	1998
1	**BellSouth Telecommunications, Inc.**	24.71 %	22.68 %	21.93 %	19.35 %	21.25 %	22.83 %	20.99 %	20.80 %
2	**Qwest Corporation, Including Malheur and El Paso**	28.60	25.07	22.74	20.08	19.14	19.93	19.06	16.56
	SBC Communications, Inc.								
3	Southwestern Bell Telephone Company L.P.	27.92	16.38 [6]	15.60	14.88	18.81	15.17	10.22	9.91
4	Ameritech Operating Companies	31.29	22.51	20.55	20.24	25.72	30.24	28.93	22.59
5	Nevada Bell Telephone Company	36.81	24.76	20.16	14.86	20.86	21.55	19.26	16.02
6	Pacific Bell Telephone Company	27.47	28.77	26.23	21.00	23.79	19.20	21.01	16.50
7	Southern New England Telephone Company, The	20.27	21.82 [6]	23.93	18.47	23.57	18.21	12.12	10.99
	Verizon Telephone Companies								
8	Verizon Telephone Companies (Verizon FCC Tariff No. 1)	14.51	11.24	8.00	11.95	12.93	13.36	13.66	
	(Former Bell Atlantic Companies)								
	Bell Atlantic								13.88
	Bell Atlantic (NYNEX)								11.40
	New England Telephone and Telegraph Co.								
	New York Telephone								
9	Verizon California Inc. (California - GTCA)	28.91	34.99	29.17	28.50	28.48	25.87	22.01	17.19
10	Verizon California Inc. (California - COCA)	26.02	36.93	30.64	28.22	29.80	28.74	28.28	22.71
11	Verizon California Inc. (Arizona - COAZ)	32.00	6.17	2.05	6.99	13.25	10.9	15.57	13.80
12	Verizon California Inc. (Nevada - CONV)	28.08	28.79	28.51	24.08	26.66	28.82	20.57	24.01
13	Verizon Florida Inc. (Florida - GTFL)	32.57	28.96	24.46	22.03	29.23	21.90	18.93	14.58
14	Verizon North Inc. (COPA + COQS = COPT)	39.10	32.88 [6]	40.74	43.61	39.71	41.05	39.58	45.97
15	Verizon North Inc. (Illinois - COIL)	41.49	41.72	60.34	54.09	53.67	44.51	41.03	14.11
16	Verizon North Inc. (Indiana - COIN)	51.58	40.36	47.34	46.06	46.55	47.67	41.40	34.61
17	Verizon North Inc. (Ohio - GTOH)	21.17	18.58	19.39	19.53	20.45	21.88	21.7	21.83
18	Verizon North Inc. (Pennsylvania - GTPA)	54.03	20.50	13.76	22.50	23.17	21.95	21.41	14.67
19	Verizon North Inc. (Wisconsin - GTWI)	13.99	11.53 [6]	10.85	9.90	14.16	16.99	17.85	16.08
20	Verizon North/Verizon South (GTIN + GLIN = GAIN)	23.19	22.34	22.64	24.75	32.82	33.00	32.47	29.06
21	Verizon North/Contel South (GTMI + GLMI = GAMI)	18.01	14.83 [6]	15.10	16.64	17.49	16.45	15.75	13.17
22	Verizon North/Verizon South (GTIL + GLIL = GAIL)	23.20	23.29	21.99	21.54	23.67	23.90	22.35	23.07
23	Verizon Northwest Inc. (Oregon - GTOR)	32.91	25.44	26.28	26.10	31.69	30.95	31.56	27.03
24	Verizon Northwest Inc. (West Coast CA - GNCA)	(33.60)	(9.44)	(13.80)	(5.17)	1.91	(8.35)	(9.93)	(6.85)
25	Verizon Northwest Inc. (Washington - COWA)	33.62	30.44	36.20	31.57	40.06	39.49	39.17	30.41
26	Verizon Northwest Inc. (Washington - GTWA)	33.60	33.91	29.82	28.97	34.03	33.26	32.91	27.33
27	Verizon Northwest Inc. (Idaho - GTID)	44.03	34.53	28.20	33.01	38.74	34.17	32.24	30.89
28	Verizon South Inc. (North Carolina - GTNC)	(22.63)	17.52	16.74	23.45	30.08	26.44	24.85	27.92
29	Verizon South Inc. (N. Carolina - CONC)	4.39	10.10	14.77	21.97	22.17	17.75	19.87	12.78
30	Verizon South Inc. (GTSC + COSC = GTST)	23.47	39.63	28.19	29.82	32.44	31.19	30.70	
	Verizon South Inc. (Alabama - GTAL)					24.02	20.24	22.23	17.59
	Verizon South Inc. (Kentucky - COKY)					30.95	20.60	9.55	5.97
	Verizon South Inc. (Kentucky - GTKY)					27.21	25.07	24.03	22.34
	GTE South Inc. (South Carolina - GTSC)								30.62
	GTE South Inc. (South Carolina - COSC)								26.14
31	Verizon South Inc. (Virginia - COVA)	46.97	33.50	39.52	40.41	40.69	40.85	34.74	35.19
32	Verizon South Inc. (Virginia - GTVA)	22.83	24.17	(22.01)	1.76	9.53	6.62	9.94	20.56
33	GTE Southwest Inc. dba Verizon Southwest (Texas - COTX)	11.26	11.23	10.05	12.46	11.9	12.17	17.13	14.96
34	GTE Southwest Inc. dba Verizon Southwest (Texas - GTTX)	18.63	18.21	18.74	20.47	24.35	21.65	21.42	16.43
	GTE Midwest Inc. (Missouri - COMO + COCM + COEM = COMT)					20.33	17.06	15.29	12.56
	GTE Midwest Inc. (Missouri - GTMO)					23.92	19.15	11.82	16.08
	GTE Systems of The South (Alabama - COAL)					15.77	14.93	10.88	7.97

Table 4.1

Interstate Rate of Return Summary *
Years 1998 through 2005
Price-Cap Companies Reporting FCC Form 492A - Continued
(Final Reports for 1998 Through 2004 and Initial Report for 2005) [1]

	Reporting Entity	2005	2004	2003	2002	2001	2000	1999	1998
	Sprint								
37	Central Telephone Company - Nevada Division	45.68 %	43.37 %	34.16 %	23.80 %	19.61 %	19.29 %	21.15 %	17.79 %
38	Sprint - Florida Incorporated	42.94	40.98 [6]	35.54	29.41	25.89	27.38	27.17	26.14
39	Sprint Local Telephone Cos. - Eastern (NJ & PA)	56.33	55.14 [6]	45.38	37.78	26.21	25.62	20.87	14.59
40	Sprint Local Telephone Cos. - Midwest (MO, KS, MN, NE, WY, TX)	32.3	29.17 [6]	25.24	18.89	16.63	18.88	17.69	19.66
41	Sprint Local Telephone Cos. - North Carolina	50.81	51.62 [6]	45.89	36.64	25.56	22.23	15.92	12.55
42	Sprint Local Telephone Cos. - Northwest (OR & WA)	33.81	23.90 [6]	33.51	34.62	31.55	32.77	31.86	32.54
43	Sprint Local Telephone Cos. - Southeast (TN, VA & SC)	38.73	36.14 [6]	34.34	33.76	25.33	23.32	17.50	15.87
44	United Telephone Co. of Indiana, Inc.	71.84	68.80 [6]	46.47	41.75	35.19	38.21	28.98	24.19
45	United Telephone Co. of Ohio	46.2	39.01 [6]	31.50	30.89	27.13	20.03	20.16	17.33
	All Other Companies								
46	ALLTEL Nebraska, Inc.	28.40	14.25 [6]	13.43	12.20	12.57	12.99	19.27	15.02
47	Kentucky ALLTEL - Lexington, Inc.	38.10	33.40 [6]	26.75	27.78				
48	Kentucky ALLTEL - London, Inc.	23.37	25.50 [6]	26.26	28.76				
49	CenturyTel of Belle-Hermann/So Missouri/Sw Missouri (CNMO)	28.36	22.94	14.53	4.69 [2]				
50	CenturyTel of Central Missouri (CNMC)	44.95	37.88 [6]	32.54	11.83 [2]				
51	CenturyTel of Northern Alabama (CNAN)	21.54	11.97	8.23	7.49 [3]				
52	CenturyTel of Southern Alabama (CNAS)	27.84	23.21	24.13	15.78 [3]				
53	Cincinnati Bell Telephone Company	34.47	33.71 [6]	32.48	28.64 [4]	30.09	28.95	25.45	17.81
54	Citizens Comms Cos. dba Citizens Comms FCC Tariff 1 (CTC1)	32.31	34.99 [6]	24.40	19.27	15.73	19.68	16.71	17.87
55	Citizens Comms Cos. dba Citizens Comms FCC Tariff 2 (CTC2)	29.13	37.75 [6]	16.14	20.67	17.30	24.05	15.74	14.29
56	Citizens Comms Cos. dba Citizens Comms FCC Tariff 3 (CTC3)	16.24	12.19 [6]	10.40	8.94	4.52	16.12	15.56	
57	Citizens Comms Cos. dba Citizens Comms FCC Tariff 4 (CTC4)	49.91	42.79 [6]	35.38	23.31	13.08	30.94		
58	Frontier Telephone of Rochester	14.03	55.89 [6]	10.67	11.47	12.32	18.91	16.77	18.37
59	Frontier Tier 2 Concurring Companies	50.77	11.45 [6]	38.49	33.34	38.12	38.95	43.42	45.45
60	Frontier Comms of Minnesota & Frontier Comms of Iowa	25.12	33.67 [6]	32.16	31.15	25.24	33.16	35.40	29.28
61	Citizens Telecommunications Cos. (CTC5)			40.37	4.90	0.86	(11.23)		
62	Hawaiian Telecom	21.88	9.44 [7]	16.96	15.30	16.72	17.87	17.62	15.64
63	Iowa Telecom Service Group	19.36	17.30 [6]	17.58 [5]	14.26 [4]	13.07			
64	Iowa Telecom Systems Service Group	19.14	20.16	23.97 [5]	20.47 [4]	18.45			
65	Micronesian Telecommunications Corp.	37.67	43.52 [6,7]	33.91	32.75	21.83	23.58	29.24	34.45
66	Valor New Mexico #1164	28.25	22.96 [6]	18.45	16.86	11.45	20.67		
67	Valor New Mexico #1193	17.77	21.16 [6]	20.41	15.88	8.39	13.35		
68	Valor Oklahoma	19.38	15.29 [6]	8.69	9.31	11.65	11.22		
69	Valor Texas	18.08	13.47 [6]	15.21	10.66	5.70	5.24		

	2005	2004	2003	2002	2001	2000	1999	1998
Maximum Rate of Return	71.84 %	68.80 %	59.89 %	54.09 %	53.67 %	47.67 %	43.42 %	48.69 %
Minimum Rate of Return	(33.60)	(9.44)	(17.50)	(5.17)	0.86	(11.23)	(9.93)	(25.83)
Weighted Arithmetic Mean	23.48	20.44	18.06	17.69	19.62	18.04	18.50	15.60
Standard Deviation	9.13	9.00	8.63	5.69	5.80	5.17	5.96	3.96

* The interstate rates of return reported by carriers on the FCC Form 492A may not necessarily agree with the interstate rates of return reported by the carriers on other Commission forms. For example, price-cap carriers also report interstate rates of return on the Commission's Automated Reporting Management Information System's (ARMIS) 43-01 report. The interstate rates of return reported by carriers on the ARMIS 43-01 include revenues and costs for non-price-cap services.

[1] For years 1991 - 1997, see Industry Analysis Division, Common Carrier Bureau, *Trends in Telephone Service* (August 2001).

[2] For the reporting period 9/1/02 - 12/31/02.

[3] For the reporting period 7/1/02 - 12/31/02.

[4] For final 2002, there were no changes to the preliminary.

[5] For final 2003, there were no changes to the preliminary.

[6] For final 2004, there were no changes to the preliminary.

[7] Verizon sold these companies in 2005.